THE BRAZILIAN STATE IN THE NEW DEMOCRACY

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Abstract

This paper analyzes the contradictory impact of democratization on the Brazilian state. The return of democracy initially reinforced the efforts of clientelist politicians and "special interest" groups to win influence inside the state. Yet the resulting corrosion of state autonomy and capacity exacerbated Brazil's severe economic problems, which discredited established elites. In this crisis situation, democratic elections produced a renovation in political leadership and allowed determined reformers--first Fernando Collor, then Fernando Henrique Cardoso--to win office and try to rebuild the state, for instance through tax reform. Under democracy, the initial deterioration of state capacity thus triggered efforts to jump-start economic development and strengthen the state.

How does a country's transition to democracy affect its state?[1] This question is of great importance, given the crucial role that the state has played in the economic, social, and political development of most countries affected by the "third wave" of democratization. Yet this topic has received insufficient scholarly attention.[2] In fact, definitional assumptions may make this question appear as a non-issue: Because the state is regarded as more permanent than a political regime, which can change with disturbing frequency, democratic transitions are often assumed to leave the state unchanged. Latin America's "politicized states" (Chalmers 1977; Power 1991), however, lack institutional stability. Given the fluidity of state structures in the region, democratization may have a profound effect upon the state: It may help institutionalize the state and turn it more autonomous from established social forces, or by contrast, it may further corrode the internal unity and undermine the strength of the state. Since the state has assumed an enormously wide range of responsibilities in Brazil, this country constitutes an especially good case for analysis.[3]

At the outset, a clarification of key concepts is in order. Following Weber (1976: 29), I define the state as the territorially based institution that "successfully claims the monopoly of legitimate physical coercion for the execution of its orders". The core of the state--and the focus of the following analysis--is the complex bureaucratic apparatus dedicated to administration, coercion, and fiscal extraction. To the extent that the state "formulate[s] and pursue[s] goals that are not simply reflective of the demands or interests of social groups, classes, or society" (Skocpol 1985: 9), state autonomy prevails. State capacity, in turn, denotes the state's ability to attain these goals and implement its decisions; the more institutionalized state structures are, the more the state can sustain this ability. Finally, state strength is the combination of state autonomy and state capacity.[4]

Due to the dearth of scholarly attention, theoretical guidance on the impact of democratization on the state is scarce. The sporadic hints in the literature cluster around two divergent conjectures. Some authors expect a democratic transition to turn the state into a more autonomous and powerful Leviathan, whereas others foresee a Gulliver tied down by an ever denser web of particularistic links to narrow social groupings.

Rival Conjectures

The first set of arguments claims that democratization gives the state a higher level of institutionalization, making its organizational apparatus more cohesive and turning it more autonomous from powerful social classes and groups. Democracy enhances the transparency of decision-making and thus allows the public to hold the state more accountable. Intensified control by civil society induces state officials to assume a more unified posture and refrain from constant squabbling and bureaucratic infighting (Hintze 1981: 142-56). Increased accountability also eliminates the shady influences that private groupings commonly exert on the state under authoritarian rule. Since democratization opens up channels of interest representation for mass actors, who were tightly controlled by the military regime, it also turns political participation more widespread and less skewed in social terms. The affirmation of political equality permits the "popular sectors" to de-monopolize privileged groups' privileged access to the state. As a result, the state acquires greater autonomy from dominant groups and classes.[5] This reduction of outside influences makes it possible to enhance the internal unity of the state.

Democratization may also strengthen the state by turning politicians away from clientelism. Where electoral politics continued under authoritarian rule, as in Brazil, politicians were excluded from important policy decisions and remained confined to winning support by advancing particularistic demands for special favors to the state bureaucracy. With democratization, politicians regain the power to make central policy decisions. They may therefore come to care more about programmatic issues than about special favors. This turn away from clientelism allows state agencies to fulfill their administrative tasks without the constant interference of scores of patronage-hungry politicians. Since under authoritarian rule these politicians also sought to have their own cronies appointed to public posts in order to control the distribution of state resources, the turn away from clientelism allows the public bureaucracy to institute more merit-based recruitment and promotion systems, which improve the competence of state officials and enhance the cohesion of the state apparatus. In addition, politicians who were excluded from power under the military regime and who therefore did not use patronage may win office in the new democracy. Used to gaining support through programmatic appeals, they refrain from resorting to clientelist tactics (Shefter 1994: 27-34). Thus, the turnover stimulated by democratization further diminishes the role of patronage in politics.

Finally, in federal systems, democratization increases the autonomy of local and regional governments. This allows the federal government to delegate many routine tasks--such as the administration of primary education and basic health care--and concentrate on fundamental policy decisions (Domínguez and Giraldo 1996: 27). Relieved of unimportant responsibilities, the central state can devote all its attention and resources to the crucial issues. This functional specialization further strengthens the state. In all these ways, democratization can enhance the autonomy and capacity of the state.

By contrast, other authors expect democratization to corrode the state's cohesion and autonomy by allowing interest organizations and clientelist politicians to enhance their influence and capture public agencies. In this view, the extension of rights of democratic participation favors privileged social groups, who take better advantage of the new opportunities and further increase their influence in and on the state. In fact, to the extent that "popular sectors" gain influence, state cohesion diminishes even more. Instead of balancing elite influence and thus giving the state greater autonomy, popular sector groups capture state agencies that affect their "special interests" and use them for their own benefit, often in detriment to their less well-off brethren (Malloy 1987). Rather than making the state more cohesive, this diversification of outside influences exacerbates "bureaucratic politics" and "institutional combat".

Similarly, democratization may extend clientelism, not eliminate it. The unfulfilled basic needs of many poor people; the long-standing organizational weakness and lack of programmatic orientation of political parties; and the persistent control of technocrats over crucial public decisions may induce clientelist politicians to retain their principal strategy of political sustenance (Chalmers 1972; Mainwaring 1992-93: esp. 691-706; Hagopian 1996; see already Weber 1976: 839-64). The requirements of electoral competition may prompt even politicians who had previously not relied on patronage to adopt clientelist tactics. The increased number of patronage-hungry politicians may capture public agencies that had before been shielded from clientelist machinations. Such a proliferation of clientelism further corrodes the internal unity and administrative capacity of the state (O'Donnell 1993).

Finally, the revival of federalism in a clientelist political system may not lead to functional specialization, but to constant power struggles between different levels of government. Where the dispensation of basic health care and primary education is not an administrative routine task, but a crucial instrument for winning electoral support, the devolution of responsibilities to the sub-national governments severely weakens the central state. Federal authorities actively or passively resist decentralization, whereas the municipal and state governments push for gaining greater responsibilities. These fights take up enormous energy and turn important policy arenas--such as education and health care--into battlefields. Technical considerations become secondary, pushed into the background by political machinations. These conflicts weaken the state's capacity for attaining its goals. In all these ways, democratization thus undermines the strength of the state.

These two divergent viewpoints derive in good part from different assessments of the quality of a new democracy, defined in terms of the transparency of decisions, the accountability of policy-makers, and the equality of political participation. If these democratic features attain high levels, the state is likely to gain greater autonomy and cohesion; if not, the opposite outcome is probable. In turn, the quality of a new democracy depends in part on the organization of politics under authoritarian rule. For instance, where clientelism was rampant and "rent-seeking" interest groups had great influence, these corrosive forces are likely to persist and further diminish the strength of the state under democracy. By contrast, where politicians belong to strong parties and interest groups have a more encompassing scope, the quality of democracy is probably higher, and the state can gain greater autonomy and institutional capacity. Yet the two opposing conjectures also diverge on the capacity of a new democracy to change the trends set in motion under authoritarian rule. The more cynical viewpoint assumes that institutional deficits inherited from the military regime are difficult to change; for instance, collective action dilemmas usually inhibit reforms, such as efforts to limit patronage. By contrast, the more optimistic viewpoint has greater confidence that the reassertion of democratic principles makes improvements possible.

The Main Argument

Which one of these divergent conjectures accounts better for the evolution of the Brazilian state since the return of democracy? This essay advances a dialectical argument that combines the two opposing viewpoints. Due to persistent clientelism, the weakness of political parties, and the fragmentation of interest groups, the trends towards an erosion of state autonomy and capacity predominated initially. Yet this deterioration of the state exacerbated Brazil's economic and political problems, discredited established sociopolitical forces, fuelled popular discontent, and allowed reformers to win presidential office. The crisis aggravated by the initial decline of the state thus triggered a response that has produced an uneven and halting, yet noticeable resurrection of state capacity. By facilitating the expression of discontent and by allowing reformers to win strong electoral mandates, democracy itself has been crucial for this turnaround. Since chief excutives are held accountable for the well-being of the whole country, presidents have made the most important reform efforts. By contrast, collective action problems have prevented legislators, sub-national governments, and interest groups from initiating state reform and often even kept them from contributing to this goal.

During the first phase of the incipient democracy, under the government of José Sarney (1985-90), the Brazilian state suffered from increasing outside capture and internal infighting and paralysis. Clientelist politicians, rent-seeking interest groups, and power-hungry state governors increased their influence on the state, exacerbated tensions inside the public bureaucracy, and thus weakened the state's capacity for attaining its own goals. Indeed, the state seemed too weak and divided to pull itself up by its own bootstraps, and society seemed too fragmented to help the state back onto its own feet.

Yet contrary to the danger of persistent stagnation, the problems produced by the state's weakness, which contributed to a severe economic crisis in the late 1980s, prompted efforts to strengthen the state. The rampant clientelism and generous concessions to interest groups under the Sarney government fuelled public disaffection and discredited established political forces. The further diminution of state capacity also exacerbated Brazil's economic problems, which had their roots in the debt crisis and the exhaustion of import-substitution industrialization. Facing a deep crisis, especially incipient hyperinflation, voters opted for political outsiders in the presidential contest of late 1989. The eventual winner, Fernando Collor de Mello, was a bold upstart who promised to end the crisis through determined, daring measures.[6] Only Brazil's return to democracy made it possible for such a dark-horse candidate, who had few commitments to established sociopolitical forces and who was therefore in a position to initiate drastic change, to take power and begin the revamping of Brazil's development model, including the rebuilding of the state.

President Collor's (1990-92) turn to "neoliberalism" was designed in part to resurrect the state's clout, as the attempts at administrative centralization and tax reform confirm. Even market-oriented reforms would fortify the core of the state through a strategic retreat from excessive interventionism. Collor sought to attain these goals by imposition, keeping established sociopolitical forces at bay. But this brash effort at rebuilding the state encountered tenacious resistance from clientelist politicians, particularistic social groupings, and sub-national governments. This widespread opposition blocked Collor's attempt to enact state reform by fiat. What turned this political failure fatal was that the president and his entourage had misused their high level of autonomy to organize the most extravagant--and most amateurish--corruption scheme in Brazilian history. The revelation of these misdeeds led to the president's impeachment.

Learning from this spectacular political failure, President Fernando Henrique Cardoso (1995-present) has sought to attain similar goals through different means, namely through transaction. The disrepute into which clientelist politicians and rent-seeking business groups had fallen as a result of a large-scale corruption scandal (revealed in late 1993 and early 1994) facilitated his task. Cardoso's stunning victory in the presidential election of October 1994, based on his success in stabilizing Brazil's persistent inflation, further strengthened his bargaining position. Furthermore, Cardoso has sought support by appealing to democratic public opinion, over and above the heads of politicians and interest groups.

Yet despite Cardoso's strong democratic legitimation and occasional populist tactics, negotiation with established sociopolitical forces has required many concessions. The effort to rebuild the state together with--rather than against--politicians, interest groups, and state governors has therefore made only glacial progress and is unlikely to achieve any definite increase in state strength. Rather, Cardoso's precarious success is based less on lasting institutional solutions than on clever expedients (*jeitinhos*), such as the constant re-edition of "provisional measures" and the temporary renewal of short-term fiscal adjustment plans. Thus, the Brazilian state is unlikely to overcome its long-standing weaknesses quickly.

State Corrosion under the Sarney Government

Towards the end of military rule, the Brazilian state resembled a "divided Leviathan" (Abranches 1978). While intervening in vast areas of economy and society and thus having tremendous importance as a structure, the state had diminishing force as an actor:[7] It was becoming ever less capable of attaining its goals. The very growth of the state apparatus, which had further accelerated under military rule (1964-85), made internal coordination and central control more and more difficult. As a larger number of public agencies had overlapping responsibilities, squabbling and infighting ("bureaucratic politics") became endemic, undermining state cohesion. The state agencies involved in these conflicts often sought support from powerful interest groups, especially business sectors. State agencies and officials therefore established innumerable links to social groupings, both through associational and personalistic channels ("bureaucratic rings": Cardoso 1975: 181-84, 206-9). All these internal divisions and outside connections increasingly weakened the state (Lima and Abranches 1987).

Did democratization prompt the Brazilian state to acquire greater autonomy and strength, or did it reinforce the tendencies towards fragmentation and capture that were at work under the military regime? During the early years of the incipient democracy (1985-90), fragmentation and capture clearly were the predominant trends. As clientelist politicians, "rent-seeking" interest groups, and patronage-hungry local and regional governments enhanced their clout, the autonomy and institutional capacity of the Brazilian state diminished further.

In the emerging democracy, clientelism did not decline; on the contrary, it expanded (Ames 1995; Hagopian 1996; Mainwaring 1992-93). The long-standing weakness of political parties and the control of technocrats over crucial policy decisions induced politicians not to focus on programmatic debates, but mostly on their own political survival. Given the poverty and low educational level of many voters (exacerbated by the extension of suffrage to illiterates in 1985), the distribution of small-scale benefits continued to yield considerable electoral dividends. As traditional politicians kept using clientelist means, representatives of the former opposition who had been excluded from patronage under the authoritarian regime felt an irresistible incentive to adopt the same means as their competitors (O'Donnell 1988). As a result, a larger number of politicians with more diverse orientations now came to beleaguer the state with incessant demands for patronage. This extension of clientelism undermined the administrative competence and internal unity of the state in several ways.

The heightened demand for clientelist benefits hindered meritocratic recruitment and promotion in state agencies and public enterprises that had previously been shielded from clientelist interference. To control patronage, clientelist politicians seek to nominate their cronies to public posts. The military regime had shielded parts of the state from these pressures in order to ensure competent administration. With the return of democracy, intensified clientelist pressures broke down many of these barriers. The Ministry of Social Security, for instance, which had been administered by a close-knit group of technocrats under the government of Ernesto Geisel (1974-79), relied more and more on "political" appointments during the gradual process of democratization.[8] Similarly, politicians captured Telebrás, the state telephone company, during the "New Republic" (1985-90).

Furthermore, a wider range of political forces managed to win clientelist appointments under the incipient democracy. While ideological commitment is low among Brazilian politicians, this increased political diversity exacerbated conflicts inside and among state agencies. For instance, the more conservative wing of the main government party PMDB *(Partido do Movimento Democrático Brasileiro)* controlled the Health Ministry during much of the Sarney government, whereas its more progressive current dominated the Social Security Ministry. This divergence intensified the unending conflicts over the administration of health care, which both ministries shared. This power struggle triggered the MPAS' rash, technically unprepared decision in 1987 to decentralize health care, which caused innumerable complications in later years (Weyland 1995: 1705-6). Thus, the diversification of clientelism hindered competent public administration.

These clientelist conflicts came to pervade the whole state apparatus. In order to regulate these tensions, politicians negotiated formal agreements over the distribution of spoils. In this way, factions of the two main governing parties (PMDB and *Partido da Frente Liberal*-PFL) came to appoint a vast range of public servants, from top officials to low-ranking staffers. For instance, the right to nominate the "representative" of the social security system who controlled the distribution of benefits in outlying areas fell to the parliamentarian who had gained the highest vote in this area and who had voted for the winning ticket in the electoral college in January 1985.[9] Since the concession of social benefits was crucial for "buying" votes, the "representatives" frequently departed from administrative guidelines and committed innumerable irregularities in order to favor their clientelist patrons.

In general, the people who owed their public positions to clientelist machinations were much more accountable to their political benefactors than to their bureaucratic superiors. In addition to fueling conflicts inside public agencies, clientelist appointments thus undermined administrative hierarchy. Heads of agencies were often unable to guarantee the execution of their orders. For instance, the Social Security Minister lacked effective control over the agency in charge of health care--which he was officially supposed to supervise--because he had little influence over the nomination of the agency's head. Both the minister and the agency head wasted much time and energy in the power struggle that these unclear lines of authority provoked (Weyland 1995: 1706).

In sum, the extension of clientelism under the new democracy further undermined the internal unity of the state, enveloped it in innumerable outside links, and weakened its capacity to attain its own goals.[10] Rampant clientelism also led to considerable waste of resources and caused a dramatic increase in expenditures. For instance, the federal government's personnel spending exploded from 2.5% to 4.5% of GDP between 1986 and 1989.[11]

At the same time, democratization did not eliminate the connections that business groups and some professional associations had established to state agencies and officials. Rather than counterbalancing these influences and thus giving the state greater autonomy, popular sector groups sought to capture those public agencies that most affected their own "special interests". The return of democracy thus did not draw a clear borderline between state and society, but on the contrary led to a more profound penetration of the state by social groupings.

Many of the "bureaucratic rings" that linked business sectors to state officials survived the regime transitions or were re-created quickly. Lower-level bureaucrats who had served the authoritarian regime often retained important public posts in the incipient democracy, and many of the newly recruited top officials had fairly close ties to business groups. Even in some of the best-organized, most meritocratic agencies, such as the Brazilian IRS (*Secretaria da Receita Federal-SRF*), business people maintained the dense network of personal contacts that they had established under the military regime. This privileged access enabled entrepreneurs to influence decision-making and implementation and thus win special favors.[12] Contrary to the democratic norm of transparency, these shady connections endured in the emerging democracy and continued to corrode state autonomy and capacity.

The recruitment of new state officials and the end of authoritarian restrictions on interest associations produced a diversification of these outside connections. Some of the new public servants had links to professional organizations or popular sector groupings that had lacked influence on the state under the military regime. Non-elite sectors also took advantage of the end of authoritarian rule to put pressure on the state. Some of these associations won significant influence in certain issue areas. Trade unions, for instance, turned into a factor to reckon with in labor policy, and newly emerging, very active organizations of pensioners gained a say in social security policy.

Only in some areas, however, did these popular sector organizations counterbalance business influence and enhance the autonomy of state agencies. In health care, for instance, public officials used to have a very cozy relationship with private providers and profit-seeking hospitals under the military regime (Cordeiro 1984). During the Sarney government, the recruitment of new, more progressive public servants and the increased activism of professional associations and popular sector movements broke some of these "bureaucratic rings". As a result, the agency in charge of health care (*Instituto Nacional de Assistência Médica da Previdência Social-INAMPS*) gained the capacity to design redistributive health reform (Weyland 1995: 1702-8). The execution of these changes, however, was greatly hindered by the connections that private groupings retained at lower levels of the bureaucratic hierarchy.[13] Thus, even in this case, state autonomy increased little, and only for a short period of time.

More often, the expanding connections of professional associations and popular sector groupings did not strengthen the state, but led to its further cannibalization. As outside links multiplied and diversified, public officials encountered more fetters on their activities than before, and tensions inside the state apparatus grew. For instance, the connections that pensioners' associations--mostly of better-off sectors--established with the Social Security Ministry hindered the pursuit of reforms benefiting the poorest groups and fueled conflicts with the Finance Ministry, which sought to limit public spending.

These outside links--especially the continuing connections of business groups to state agencies and officials--allowed "special interests" to increase state spending on their behalf and to limit resource extraction. For instance, the expenditures on goods and services that the federal government bought from private contractors skyrocketed from 3.1% of GDP in 1985 to 5% in 1989 (Varsano 1996: 4). At the same time, tax evasion--often facilitated by collusion between entrepreneurs and state officials--increased dramatically, as indicated by the growth in the share of cash in M1 from 21% in 1985 to 39% in 1990.[14] The resulting loss of resources contributed to the reduction in the federal government's tax revenues from 7.8% of GDP in 1985 to 6.7% in 1989.[15] During the same years, public sector borrowing requirements rose from 1.2% of GDP to 4.3% (Varsano 1996: 7). Thus, the connections between state officials and rent-seeking interest groups--combined with the extension of clientelism--exacerbated the severe fiscal problems that the Brazilian state was suffering as a result of the debt crisis.[16]

The revival of federalism further reduced the internal unity of the Brazilian state and aggravated its financial difficulties. Rather than leading to functional specialization and allowing the national government to concentrate on basic policy decisions, the move towards decentralization unleashed innumerable political conflicts and weakened the central state. Brazil's gradual regime transition, which avoided direct presidential elections for a long time, exacerbated this shift in power from the national to the sub-national governments. From late 1982 to late 1989, elected state governors faced a president who lacked the legitimacy bestowed by direct popular election. This democratic deficit made it more difficult for the central government to resist the pressure of state governors and city mayors for the devolution of power and resources.[17]

As a result, Brazil's incipient democracy saw drastic decentralization. Above all, the new constitution, promulgated in 1988, mandated a reduction of the federal government's share in total tax revenues from 43% in 1987 to 35.2% in 1993 while raising the shares of the state and municipal governments from 38.7% to 41.2% and from 18.3% to 23.6%, respectively (Rosa 1988: 118). Since this dramatic resource shift was not accompanied by a similar devolution of administrative responsibilities, it exacerbated the fiscal crisis of the federal government. To lower its expenditures, the latter sought to push some of its routine tasks to the state and municipal level (*operação desmonte*, 1989), but without any success (Bomfim and Shah 1994: 536, 539). The central state also attempted to revert the revenue shift through technical tricks and, later on, through constitutional reform. All these efforts led to innumerable conflicts, which further diminished the efficacy of state action.

In sum, democratization further reduced the autonomy of the Brazilian state from "rent-seeking" interest groups and clientelist politicians, undermined its internal unity, and diminished its capacity to attain its goals. The Brazilian state increasingly resembled Gulliver, tied down by innumerable particularistic links to narrow social and political groupings. Yet instead of keeping the state prostrate, these problems paradoxically prompted efforts to rebuild and fortify the state.

State Reform by Imposition? President Collor's Failure

The further deterioration of state capacity under the incipient democracy exacerbated the severe economic problems that Brazil was suffering due to the debt crisis and the exhaustion of import-substitution industrialization. Servicing the country's external obligations created an enormous fiscal drain; the above-mentioned increase in budget spending and the simultaneous reduction in tax revenues intensified Brazil's financial crisis. These fiscal problems, in turn, fuelled inflation and undermined several attempts at economic stabilization. Due to all these difficulties, Brazil slid into a deep crisis in the late 1980s, marked especially by skyrocketing inflation of 981% in 1988 and 1,973% in 1989.[18]

In the context of advanced democratization, this crisis prompted bold rescue efforts designed to stop further deterioration and put Brazil back on a path towards development. In the presidential election of late 1989, a majority of citizens rejected established politicians and voted for outsiders who promised to turn the country around. The candidates of the two main government parties, the PMDB's Ulysses Guimarães and the PFL's Aureliano Chaves, won a meager 4.4% and .8% of the vote. The two most successful candidates were Fernando Collor de Mello, a young, brash upstart with few connections to the national political elite, and Luis Inácio Lula da Silva, the leader of the socialist Workers' Party (*Partido dos Trabalhadores-PT*), the greatest novelty in Brazil's party system (Keck 1992). The eventual winner, Collor, deliberately depicted himself as a newcomer who would embark on a sweeping house-cleaning and save the country from its severe problems. In this crisis situation, democratization thus permitted the accession to power of a bold outsider--an elite renovation that would have been virtually impossible under authoritarian rule. The return of democracy opened the path for efforts to address Brazil's severe economic problems and reform the state.

As promised, the new president made a determined effort to end Brazil's deep crisis and put the country back on the track towards development. Immediately upon taking office, Collor imposed the most drastic stabilization plan in Brazilian history, confiscating financial assets above a low limit (approximately US$ 1300 for savings accounts) for eighteen months. In addition, Collor initiated a wide range of structural reforms designed to give market forces freer reign. Yet while seeking to cut back state interventionism through deregulation, the privatization of public enterprises, and the dismissal of public officials, the new government in many ways sought to strengthen--not weaken--the state, precisely through a strategic retreat from excessive interventionism. Many of Collor's reforms constituted efforts at state-building.[19]

For this purpose, Collor pursued a two-pronged strategy: He sought to fortify the core of the state through administrative and fiscal reform and at the same time shed peripheral areas of the state apparatus, which had been irremediably captured by social and political groupings. On the one hand, he wanted to centralize power in the presidency in order to enhance control over crucial agencies and thus increase the organizational cohesion of the state. In this way, he planned to recover the role of the state as the guiding force in Brazilian development (*Diretrizes* 1989: 10-15, 18-23). On the other hand, he sought to cut outside links that tied down the state. Since it seemed infeasible to eliminate the entrenched influence of social groups and clientelist politicians in many agencies, he wanted to privatize these agencies and thus cut the privileged access of private actors to public decision-making through amputation (*Diretrizes* 1989: 17). This shrinking of the public bureaucracy was meant to reinforce, not destroy the state. By giving up instruments of interventionism that could no longer serve for advancing state goals (but instead for undermining them), the nucleus of the state would gain greater autonomy and strength.

With these goals in mind, Collor initiated a sweeping administrative reform immediately after taking office. He united several ministries and incorporated others into the presidency as special secretariats. He announced the extinction of numerous state agencies, the privatization of public enterprises, and the dismissal of 360,000 of Brazil's approximately 1.5 million public officials. He also sought to clean up rule implementation, for instance by extinguishing the "representatives" of the social security system who were indicated by clientelist politicians and who used their discretion to benefit their patrons.

During his first year in office, Collor also sought to keep interest groups and many clientelist politicians at bay (Schneider 1991). In an unprecedented move, the new president's economic team did not consult with the most powerful business association, the *Federação das Indústrias do Estado de São Paulo (FIESP)*, when elaborating the drastic stabilization plan of March 1990 (Amato 1992; Eris 1992; Kandir 1992; Mello 1995). Relations with many national business groups remained tense during the tenure of Collor's first Economy Minister, Zélia Cardoso de Mello (March 1990-May 1991).[20] In this way, the government cut many "bureaucratic rings" that had survived into the incipient democracy. This sudden exclusion, however, induced business people to seek access to decision-makers through even more shady means, namely the bribes intermediated by the president's former campaign finance manager, Paulo César Farias. In this way, Collor and his entourage were able to organize a huge corruption scheme, whose discovery would eventually lead to the president's downfall.

In 1990, Collor also denied many petitions of clientelist politicians for nominations to the public bureaucracy. Once again, the president sought to limit outside influences on the state in order to enhance his own control. Certainly, he followed technical criteria only in some of his appointments, while nominating his own cronies and followers to many important posts. Yet for all these appointments, strict loyalty to the new president was a necessary condition. In this way, Collor sought to ensure his control over the state apparatus, turning it more unified than it had been under the Sarney government.

Finally, Collor wanted to give the state a more solid resource base by raising taxes and limiting expenditures. Immediately after assuming the presidency, he enacted an emergency fiscal package that eliminated many tax breaks for important business sectors. Combined with the reduction in inflation that his stabilization plan achieved, these bold measures boosted federal tax revenues by almost 20% in 1990.[21] Collor also decreed strict budget austerity, instructing his Economy Minister to reject the pleas of "special interests". By limiting spending on behalf of social groupings and clientelist politicians and by raising revenues, Collor wanted to overcome the fiscal weakness of the state that greatly restricted its capacity for directing Brazilian development.

Initially, Collor sought to attain all these reform goals through imposition (Power 1997; Schneider 1991). Invoking the legitimacy provided by the 35 million votes with which he won the first direct presidential election in 29 years, Collor decreed his comprehensive stabilization plan one day after taking office. Since rejecting Collor's program would have pushed Brazil into full-scale hyperinflation, Congress had virtually no choice but to accept most of his drastic measures. Thus, the new president initially succeeded with his *fait accompli* strategy.

Soon, however, opposition resurfaced, and it grew stronger and stronger as Collor's effort to eliminate inflation failed and price rises again inched up to the mark of 20% per month. The fact that the new president could not perform magic deflated his charismatic image. As a result, Collor's imperious style became less and less impressive and ever more annoying and, in the end, ridiculous. Clientelist politicians and powerful social groupings, whom the president had initially kept at bay, voiced their demands for special favors in an ever more outspoken and insistent fashion. Congress, which Collor had steamrolled in the beginning, turned increasingly unwilling to approve the government's controversial proposals, such as a comprehensive tax reform. Thus, the obstacles that had weighed down the Sarney government crept up again and hindered Collor's efforts at rebuilding the Brazilian state.

As a result of these growing difficulties, the president's structural reform initiatives made only limited progress. Due in part to resistance from employee associations,[22] the privatization of public enterprises proceeded much more slowly than announced. The Collor government managed to sell only 15 firms, in exchange for US$ 5.874 billion (Matos and Oliveira 1996: 24). The plan to shrink the public payroll through widespread dismissals was successfully challenged in the courts and transformed into a paid-leave policy.[23] In order to reduce expenditures, the government therefore compressed public sector salaries, which fell by approximately 40% from 1990 to 1992 (MARE 1996: 40). These income losses induced many well-trained, competent public officials to leave the administration, seriously weakening the state.[24] Collor's efforts to strengthen the state thus did not only fail to achieve their goals, but they actually backfired.

Collor's proposals for tax reform also had only fleeting success. Many of the measures enacted in March 1990 were of temporary application. After reaching 8.2% of GDP in 1990, federal tax revenues therefore fell back to 6.4% in 1991.[25] In response to the threat of renewed public deficits, the government designed a profound overhaul of Brazil's fiscal system in order to raise more revenues from society and to revert part of the resource transfer to the state and municipal governments mandated by the 1988 constitution. This project was meant to strengthen the central state financially and to reduce the power and independence of the sub-national governments. Advanced in different versions between early 1991 and mid-1992 (Collor 1991; MEFP.SEPE 1991; MEFP.CERF 1992), this far-reaching plan always ran into insurmountable opposition.

Business associations rejected further increases in taxation and demanded instead a lowering of the fiscal burden, which raised their costs and thus weakened their competitive position vis-à-vis the newly liberated foreign imports. Clientelist politicians defended tax breaks as well as the established social security system, whose overhaul was part of Collor's fiscal reform plans. Most importantly, state governors and city mayors flatly rejected any reversal of the revenue gains provided by the 1988 constitution. Their disposal over ample patronage gave them considerable influence over the congressional delegations from their domains, which they used to undermine support for the government's initiatives (Delfim 1992; Fernandes 1992; IEDI 1991). Since President Collor never managed to assemble a firm party coalition in support of his government, his proposals of structural tax reform were doomed to failure.

Mounting opposition blocked much of Collor's effort to revamp Brazil's development model. Since his attempts to strengthen the state jeopardized many powerful political interests, they made especially little headway. The growing sense of failure weakened the president. His fate was sealed when evidence of massive corruption in his entourage surfaced. The president and his cronies had used their initially high degree of autonomy and distance from established interests for extracting bribes from business groups, which were desperate to regain access to crucial policy-makers. Standing in striking contrast to the president's rhetoric of moralization, these misdeeds completely discredited Collor and led to his impeachment in late 1992.

Prolonged Inaction: The Franco Government

During the interim government of former vice-president Itamar Franco (1992-94), an inept leader of mercurial temperament, the efforts at rebuilding the state came to a virtual standstill. In its first eight months in office, this lame-duck administration lacked clear direction and failed to make any headway in combatting Brazil's severe economic and political problems. Only the privatization program continued with the sale of 18 public enterprises for US$ 5.561 billion from late 1992 to late 1994 (Matos and Oliveira 1996: 24).

In May 1993, Franco appointed as Finance Minister Fernando Henrique Cardoso, a well-respected leader of the moderate *Partido da Social Democracia Brasileira (PSDB)*. During the remainder of Franco's term, Cardoso acted like a prime minister, even after stepping down from his post in April 1994 to run for president. Lacking the democratic legitimation stemming from an electoral mandate, however, Cardoso confined himself to temporary stabilization measures and refrained from pushing for structural reforms of lasting impact. Most importantly, Cardoso was unable to take full advantage of the opportunity provided by the constitutional revision of late 1993 and early 1994. During these months, the legislative quorum required for changing the charter of 1988 was lowered. The constitutional revision thus facilitated the adoption of structural reforms, such as an overhaul of Brazil's fiscal system. Due to the upcoming general elections of late 1994, however, many parliamentarians were unwilling to pass controversial measures and preferred instead to campaign in their home states. Chronically low attendance by the government's supporters and fierce obstruction by the leftist opposition doomed the constitutional revision. None of the government's proposals for structural reform therefore passed; most of them did not even come up for a vote (e.g., CN. Revisão 1994). The only success that Minister Cardoso achieved was approval of a short-term fiscal stabilization plan (*Fundo Social de Emergência*), which for a period of two years raised taxes and limited constitutional restrictions on revenue use. This expedient temporarily alleviated the state's fiscal crisis, but did not bring a definite solution.

State Reform by Transaction? President Cardoso's Slow Progress

Due to President Collor's political failure and President Franco's inaction, the reorientation of Brazil's development model and the reconstruction of the state made only limited progress during the early 1990s, and many of the country's underlying economic problems persisted. President Cardoso, who took office in January 1995, therefore pursued reform goals that were similar to President Collor's.[26] But Cardoso learned from Collor's debacle. He has therefore pursued this agenda not through imposition, but through transaction. Whereas Collor confronted--and antagonized--clientelist politicians, "rent-seeking" interest groups and powerful state governors, Cardoso has sought to negotiate with them. Given the interest of these "veto players" in maintaining many aspects of the status quo, the progress of Cardoso's reform initiatives, especially in the area of state-building, has been very slow. While the Brazilian state is gradually regaining strength, especially through an increase in tax revenues, it is unlikely to achieve a high degree of autonomy from clientelist politicians and business groups, who continue to maintain strong influence on substantial parts of the public bureaucracy.

How has Cardoso managed to make any progress towards resolving Brazil's crisis by bargaining with actors that are responsible for many of the country's economic and political difficulties? Democracy once again had a crucial impact: The new president assumed office in a position of extraordinary political strength, while his adversaries, especially clientelist politicians, were suffering from exceptional weakness. In October 1994, Cardoso gained the strongest electoral mandate in Brazilian history by winning a clear first-round victory with double the vote of his closest competitor. This success was mainly due to Cardoso's stabilization plan of July 1994 (*Plano Real*), which suddenly lowered runaway inflation without imposing drastic costs on large sectors of the population. Based on this feat, Cardoso's party also won the governorships of São Paulo, Rio de Janeiro, and Minas Gerais, Brazil's most important states. Finally, the president managed to assemble a wide-ranging, though loose support coalition in parliament, which officially controlled about 60-70% of the seats in the lower house of Congress. Thus, an overwhelming democratic mandate seemed to give the new president enormous political strength. Cardoso has sought to keep this legitimation alive by appealing (usually via TV) to "the people", over and above the heads of politicians, parties, and interest groups.

At the same time, clientelist politicians and rent-seeking interest groups have been in disrepute. The budget scandal of late 1993 and early 1994 had revealed a dense web of corruption that linked important political leaders with private contractors (CN 1994). The memories of this disgrace continued to weaken politicians and some powerful business groups. Thus, the scrutiny of public opinion, reinvigorated by democratization, debilitated potential opponents of Cardoso's reform efforts. Furthermore, the threat of a (seemingly) powerful socialist left, which had grown in the course of democratization, helped to discipline established politicians and the private sector. Luis Inácio Lula da Silva, the PT candidate, had been the clear front runner in vote intentions for the presidential election until the government enacted the last step of the economic stabilization plan designed by ex-Minister Cardoso's team (Mendes and Venturi 1994). The menace from the left revealed the electoral weakness of established politicians, indebted rightist and centrist parties to the eventual winner, Cardoso, and induced them to look more kindly on his structural reform efforts (including the rebuilding of the state), which the new president depicted as necessary for sustaining his economic stabilization plan in the medium and long run. Thus, in a number of ways, the repercussions of democratization reinforced the clout of President Cardoso, debilitated his opponents, and improved his chances for enacting some state-building reforms.

The new president has also employed skillful political tactics. He has systematically sought to exploit divergences among the interests of clientelist politicians, state governors, and powerful social groupings, reinforcing demands that coincide with his own reform agenda and providing compensation for demands he cannot satisfy. Cardoso's strategies for negotiating with each set of potential "veto players" differ slightly. In dealing with clientelist politicians, Cardoso has tried to play their short-term interests off against their long-term goals. Clientelist politicians want to gain current patronage and maintain access to future patronage. Yet given the high level of uncertainty created by Brazil's electoral system of open-list proportional representation, which makes reelection unpredictable and leads to considerable involuntary turnover (Mainwaring 1991; see also Ames 1995: 427-30), politicians heavily discount the long run and focus on the short run. Cardoso therefore offers patronage now in order to persuade politicians to accept state-building reforms that seek to limit patronage in the future.

The interests of state governors partly coincide and partly diverge from Cardoso's reform goals. While the sub-national governments oppose any attempt at fiscal recentralization, they face an especially pressing need for administrative reform, which would allow them to slim down their bloated bureaucracies and reduce their enormous financial deficits. The new president has therefore enlisted the governors as allies in his struggle for civil service reform, which intends to eliminate the employment guarantee ("stability") reinforced and extended by the 1988 constitution (Moreira Franco 1996a; Santana 1996). In the area of fiscal reform, by contrast, Cardoso has had to offer compensation for any loss that the state governments would incur.

Private business groups, finally, have a collective interest in macroeconomic stabilization and state reform, but individually, they seek to avoid paying any of the cost for these improvements. Cardoso has sought to mitigate this collective action dilemma by welcoming the efforts of business leaders to create an encompassing, more cohesive organization of the whole private sector (*Ação Empresarial*). More importantly, the government has provided leadership and coordination in the reform effort (Cidade 1995) and has sought to ensure business compliance with and support for its goals by providing pay-offs, such as selective protection from foreign competition or the financial bail-out of bankrupt firms.

With these clever tactics, the president has pursued his wide-ranging efforts at state reform. Through an ambitious tax reform, the government has tried to guarantee the state a solid fiscal foundation and to shift the tax burden away from productive enterprises, which now face stiffer external competition (CD 1995b). Through profound administrative reform, including the "flexibilization" of the employment guarantee enshrined in the 1988 constitution, the government has sought to professionalize the public bureaucracy and make it more efficient and accountable (CD 1995a; Presidência 1996). Finally, the Cardoso administration has attempted to slim down the obese state apparatus through privatization and thus facilitate central coordination and control.

Yet despite President Cardoso's strong democratic mandate and the skillful tactics he has applied, the obstacles to state reform remain enormous. Above all, the "veto players" seek to minimize the costs they have to bear and extract an exorbitant price for the losses they may incur. In the area of fiscal reform, for instance, state governors have blocked any revenue shift from the sub-national governments back to the central government (Lemgruber 1996). In addition, clientelist politicians have obstructed a lasting solution to Brazil's fiscal crisis and agreed merely to a temporary extension of the tax package adopted in early 1994.[27] The goal to maximize patronage governed this decision: Every time the federal government has to win approval for a further extension, clientelist politicians can extract new patronage. Thus, while rendering short-term expedients possible, clientelism has continued to block a permanent solution to the fiscal crisis of the state.

Similar difficulties have hindered administrative reform. Above all, politicians are unwilling to vote for a change--especially the abolition of the employment guarantee for public servants--that would appear as antagonistic to the interests of "working people" and therefore be politically costly (Moreira Franco 1996a, 1996b). Even if the government succeeded in breaking the "stability" of public servants, any large-scale dismissals would arouse too much opposition; they are therefore infeasible (Santana 1996). The absence of the threat of dismissal makes it difficult, in turn, to force improvements in the public bureaucracy. Finally, privatization has proceeded very slowly under the Cardoso government. By December 1995, only 5 public enterprises had been sold for a total of US$ 1.255 billion (Matos and Oliveira 1996: 24). The staff of these firms--concerned about their jobs, salaries, and generous fringe benefits--and the ministries supervising them--reluctant to give up any power--have offered active and passive resistance to privatization. The insistence of state governors to share in the proceeds from some of these sales has created further complications.

Thus, the advance of state reform under the Cardoso government has been slow and halting. Even if some proposals pass in the future, their real impact will be uncertain. The great strength of clientelist politicians and rent-seeking interest groups is their pervasive, invisible, and therefore uncontrollable influence on decision implementation. By bending and distorting the execution of legal rules, these "special interests" can often undermine reform goals. Thus, the government's hopes to buy restrictions on future patronage through the provision of current patronage may turn out to be an illusion.

Furthermore, the short-term price of these uncertain long-term initiatives is high. The Cardoso government has had to dole out considerable patronage and other special benefits to buy off clientelist politicians, powerful business groups, and state governors.[28] The continued influence on public appointments and resource allocation that clientelist politicians demand in return for their lukewarm endorsement of President Cardoso's reform initiatives has also kept state cohesion and capacity low. Similarly, the particularistic benefits that the government has had to provide to business sectors--such as selective protection and financial bail-out--have called into question its commitment to the universalist principles underlying the new, market-oriented development model. All these favors have also created heavy pressure on the public budget. For instance, federal personnel expenditures rose by a whopping 22% in 1995.[29] Total spending increases exceeded the substantial rise in revenues produced by the temporary tax reform and the economic recovery beginning in 1993 (Varsano 1996: 2-9). The financial crisis of the Brazilian state has therefore not eased much. Indeed, Brazil's operational deficit reached a striking 5.05% of GDP in 1995 (MF 1996: 18).

In sum, the efforts of the Cardoso government to accomplish state reform through transaction have had only limited success. While President Collor's political failure revealed the impossibility of achieving drastic change through imposition in Brazil's new democracy, President Cardoso's negotiation efforts have advanced slowly. In the medium run, however, these initiatives may accomplish significant change. Cardoso's non-confrontational approach at least avoids the risk of drastic reversals. In other countries, state-building also proceeded in a slow and gradual fashion. In the U.S., for instance, it took decades to limit the spoils system and create a professional civil service (Skowronek 1982: chs. 3, 6). Cardoso's reforms may be the first step in such a lengthy process of reconstituting the Brazilian state.

Conclusion

Democratization has had a contradictory impact on the Brazilian state. Initially, under the government of José Sarney (1985-90), it strengthened clientelist politicians, "rent-seeking" interest groups, and sub-national governments, who further undermined the internal cohesion of the state and diminished its capacity for attaining its own goals. Yet the crisis that these corrosive tendencies exacerbated triggered efforts to rebuild the state, which gained in force through their democratic legitimation in the presidential elections of 1989 and 1994. Similarly, rampant clientelism and corruption discredited the forces that corroded the state and thus strengthened the reform impulse and weakened opposition.

President Collor's efforts to impose state reform against patronage-hungry politicians, interest groups, and state and municipal governments failed due to the tenacious resistance of these veto players and the president's own misdeeds, which betrayed his campaign promise to moralize the state. Learning from Collor's debacle, President Cardoso has sought to attain state reform through transaction. His negotiations with politicians, interest groups, and sub-national governments have made some headway, but the government remains far from reaching its goals. Since Cardoso's compromise strategy requires cooperation with the forces that had undermined the state, the president is unlikely to attain any definite victory. Instead, he has to make many concessions, dole out innumerable pay-offs, and frequently rely on clever expedients (*jeitinhos*), rather than achieving institutional solutions. However, he may manage to revert the trend towards further deterioration and take the first steps towards recovering state capacity.

The impact of democratization on the state has depended in part on the quality of Brazilian democracy. In the late 1980s, the transparency of decisions, the accountability of policy-makers, and the equality of political participation were highly deficient. These deficits allowed clientelist politicians and rent-seeking interest groups to maintain and even extend their influence in the emergent democracy and to further reduce the autonomy, institutional unity, and capacity of the state. But the outrages that patronage-hungry politicians and "special interest" groups committed, as revealed in huge corruption scandals, prompted a reaction from civil society, which invoked democratic values and challenged the "pact of impunity" among the perpetrators of these misdeeds. The widespread aversion to established politicians and "special interests" and the hopes for a moralization of political life helped the initiators of state reform, Presidents Collor and Cardoso, win office and weakened many opponents of their efforts at state-building. While Collor betrayed his moralistic discourse through even worse misdeeds and fell as a result, Cardoso has managed to use the impulse towards renewing Brazilian democracy for advancing his reform goals, including the resurrection of the state. Brazil's recent experiences thus demonstrate that not only democratization as such, but also the quality of the emerging democracy has a considerable impact on the state.

What does this analysis suggest for the future of the Brazilian state? Given the contradictory tendencies that democratization has unleashed, the state is unlikely to turn into a powerful Leviathan or to remain a weak, tied-down Gulliver. Instead, as so often in Brazilian history, an ambiguous intermediate outcome is most probable. In the foreseeable future, the state will remain an agglomeration of incongruent parts, ranging from competent bureaucracies to agencies captured by business groups and patronage-hungry politicians. The Brazilian state will thus resemble a disfigured, yet moderately effectual Frankenstein. Hopefully, it will manage to beautify its ugly features over time.

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Notes

1. Some scholars warn against "anthropomorphizing" the state, for instance by talking about state interests. Yet given that scholars--including adherents to rational choice--commonly ascribe interests to other collective actors, such as political parties or the military, the concept of state interest cannot be considered illegitimate. As March and Olsen (1984: 739) assert: "Whether it makes pragmatic theoretical sense to impute interests, expectations, and the other paraphernalia of coherent intelligence to an institution [such as the state] is neither more nor less problematic, a priori, than whether it makes sense to impute them to an individual".

2. The few exceptions include Malloy (1987); O'Donnell (1993).

3. The following assessment excludes the military side of the state, analyzed in Hunter (1997).

4. For recent explications and assessments of state autonomy and capacity, see Sikkink (1991: ch.5) on Brazil, and in general Grindle (1996: 3-12).

5. This argument is reflected both in modernization theory (LaPalombara 1967: 51-55) and in Neo-Marxism (Carnoy 1984: chs. 5, 6, 8).

6. For a theoretical "micro-foundation" of this crisis argument, see Weyland (1996).

7. On this distinction, see Skocpol (1985).

8. Confidential author interviews with numerous social security officials, Brasília and Rio de Janeiro, 1988-90, 1992, 1994-96.

9. President Sarney reformulated this rule in 1987, turning appointments from rewards for past behavior (voting for Tancredo Neves on 15 January 1985) into blackmail for guaranteeing future compliance, namely supporting Sarney's personal goals in the Constituent Assembly of 1987/88. Confidential author interview with the ministerial official administering this patronage, Brasília, March 1990.

10. SEPLAN (1989) provides a fascinating inside account of the problems caused by rampant clientelism.

11. Varsano 1996: 4. Personnel spending by state and municipal governments rose by a whopping 44% in real terms between 1985 and 1990 (MARE 1996: 55).

12. Rio Branco 1989; Solimeo 1989; "Banco Mundial revela que BNDES favorece 'panelinha'," *Jornal do Brasil*, 2 January 1990: 13.

13. For instance, the *Sindicato de Hospitais de São Paulo* used to have an INAMPS director on its payroll. Confidential author interview, São Paulo, December 1989.

14. IBGE, *AEB 1989*: 549; *AEB 1992*, 948. The share of cash in M1 is a commonly used indicator of tax evasion (Peters 1991, 209-16). Since exploding inflation created a strong disincentive to using cash in Brazil during the late 1980s, the increase reported in the text is particularly noteworthy and suspicious.

15. Computed from IBGE, *AEB 1986*: 467; *AEB 1992*: 941, 1022.

16. Tanner (1994) shows how the increased importance that Brazil's new democratic government attributed to its current political support undermined budget balance.

17. For a similar argument, derived from a comparison of Spain, the ex-USSR, and Yugoslavia, see Linz and Stepan (1996: 381-85).

18. On Brazil's inflation, see recently Armijo (1996); Tullio and Ronci (1996).

19. The same is true for Peru under Alberto Fujimori (Mauceri 1995) and for Mexico under Carlos Salinas de Gortari (Elizondo 1994).

20. The resulting discontent is vividly expressed in Bornhausen (1991).

21. Computed from IBGE, *AEB 1992*: 941, 1022.

22. Collor (1995) claimed that powerful business sectors also opposed privatization.

23. Pimenta 1995. Nevertheless, Collor succeeded in reducing the number of public servants (*estatutários*) from 712.740 in 1989 to 620.870 in 1992, and the number of all state employees from 1.489 million in 1989 to 1.284 million in 1992 (MARE 1996: 33).

24. For instance, four top *técnicos* quit the *Secretaria da Receita Federal* and opened their own private consulting firm, helping business people to exploit loopholes in tax legislation that they themselves had helped create ("Ex-fiscais da Receita assessoram empresas," *Jornal do Brasil, Negócios e Finanças*, 24 May 1992: 2).

25. Computed from IBGE, *AEB 1992*: 941, 1022.

26. Cardoso 1994: chs. 1, 2, 4. In ch. 3, Cardoso puts considerable emphasis on social goals--as Collor had done (*Diretrizes* 1989: ch. 4). And like Collor, Cardoso has been criticized for not carrying out these promises. On Cardoso's plans for state reform, see Presidência da República 1996.

27. "Reeleição em campo," *Istoé*, 8 November 1995: 22-23.

28. See, for instance, "Repasse de verbas beneficia fiéis ao governo," *Gazeta Mercantil*, 10 July 1996: A-10.

29. Varsano 1996: 9. This figure corrects for an accounting trick introduced during 1995, namely the postponement of salary payments to the beginning of the subsequent month, which transferred salary payments due in December 1995 to January 1996.